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The Conference Board

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Economic Times

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Editors Note:

The big issue at the moment is the impact of the Middle East crisis, which we address on this page and the next, and with the chart on page 8. We also focus on an important and highly controversial issue that's been festering for decades, why women are not compensated at the same level as men. I'm sure Victor Fuchs' superb analysis is not going to satisfy all our readers. Then we present an intriguing little story comparing public attitudes in Moscow and New York. Finally, you should get a grin or two from Dr. Noitall's advice on how economists can improve their public image.

Quip of the month:

James M. Howell, explaining why he retired as Chief Economist of the Bank of Boston:

Twenty-eight years of wrong forecasts is enough!

From Slam Dunk to Double Gainer

Q: *What has Saddam Hussein done to the business outlook?*

A: Weakened it noticeably, throughout the industrial world. The hike in oil prices raises the inflation rate and reduces economic activity, as we learned the hard way, twice, in the 1970s (chart, p.8). The widespread fear of serious economic troubles or even war curbs consumer buying. The Conference Board's consumer survey says this may be happening now (chart, p.10).

Q: *So we're in a recession? That's what the stock and bond markets say, right?*

A: Not now. Stocks are pointing that way, true, but not bonds. Bond prices don't decline in recession. Yes, they would rise even in the face of a worsening inflation outlook. A recession dries up the demand for credit pretty fast.

Q: *But isn't recession imminent? We all remember the 1970s. Won't this crisis create a recession before long?*

A: The parallel between the 1970s and the 1990s is far from exact. This time the oil price hike is much smaller. And since we've been through the shock twice before, maybe it won't jolt our collective psyches so badly this time. There's been no panic buying of gasoline thus far.

Q: *So you rule out a recession?*

A: I don't rule it out, not at all, but for now my nickel bet is against it. Before the crisis, the economy wasn't growing vigorously, but it was doing reasonably well. I don't accept the "spinning top" theory of the business cycle, which assumes that any slowing of the expansion will lead, inevitably and forthwith, to the economy tipping over into recession. Thus even though the outlook has weakened and growth is slower, that doesn't guarantee recession.

Q: *Come on, give us a precise forecast!*

A: OK. Previously I was looking for 1 or 2 percent growth for the year ahead, now I'm guessing half that. It's not much, but it's still a plus, and thus a lot different from a recession. But our faith in all forecasts has fallen steeply. Six months ago the forecast of continued growth was a slam dunk. Now that the risk of recession is nearly even money, my slow-growth forecast is a double gainer from the tuck position with a half twist. (Forgive the mixed metaphor, please.)

Q: *What about inflation?*

A: About 5 1/2 percent, but the ongoing gradual acceleration of the inflation rate shouldn't continue for too long. And this is pretty much a neutral cyclical climate for interest rates, too — no reason they should move sharply either way.

Q: *And the budget?*

A: That's easier than usual. Nothing will be done about the deficit, except to defang Gramm-Rudman-Hollings. The heightening of economic risks gives both Congress and the Administration the excuse they were looking for to avoid, yet again, making difficult budget decisions.

Q: *Finally, can the economic blockade of Iraq be effective?*

A: Given enough time and near unanimity of effort, yes, very much so. But don't expect quick results. The lessons of economics are that more alternative sources of supply and more substitutes are always available than you ever thought possible. So the fact that Iraq has only two weeks inventory of corn on hand is not an important indicator of its capacity to survive a blockade. Should Iraq capitulate soon, it'll probably be from a feeling of isolation, rather than any direct effect of the blockade.

Edgar R. Fiedler

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Colloquium

Background:

Because the jump in oil prices will raise the inflation rate and curtail economic activity, the Middle-East crisis has been universally interpreted as a setback for the economy. Whether this will prove to be a serious setback or just a minor crimp is, however, being widely debated. As a result, there is also talk that whatever resolve Congress and the White House may have felt a month or two ago to make major long-term inroads on the budget deficit, that resolve is now fading away.

Question:

In view of the new uncertainty about the economic outlook, do you believe that it is now a good idea to postpone or scale back any budget belt-tightening?

Lyle E. Gramley
Mortgage Bankers Association

If the world price of oil stays in the high $20s, the increase in the U.S. oil bill will be around $60 billion, or 1 1/4 percent of GNP. Adding another $50 billion in budget restraint now would push the economy into recession. But the need for long-term deficit reduction is no less urgent, and the argument for an energy tax is more compelling than ever. A phased-in energy tax, building to $100 or $150 billion annually five years from now, would be good bugetary policy, good energy policy, good environmental policy, and good foreign policy.

Robert G. Dederick
Northern Trust Company

What this country needs is markedly lower real interest rates. The expansion has run out of gas *(not literally)*, and it needs a refill — in the form of an easier monetary policy. But, as Alan Greenspan has learned, the Federal Reserve must have a justification for action that will be convincing to the bond markets. Otherwise they will rebel. What could provide better cover for a large Fed move than a tightening of the budget? I'm all for it.

Murray Weidenbaum
Center for the Study of American Business

Of course we should put the Federal Government on a diet. A soft economy is the wrong time for tax increases *(is there a right time?)*. But reducing government waste always helps achieve a more productive economy. Every department has spending programs that flunk the simplest benefit-cost test. Why use private saving to finance such boondoggles? Let the funds remain in the private sector, where they may give the economy a lift.

Laura D'Andrea Tyson
University of California, Berkeley

The budget talks are the hostage of Saddam Hussein. With gasoline taxes and defense reductions ruled out, a budget compromise is a fantasy. Perhaps we should breath a sigh of relief. Fiscal austerity is risky business when demand is weak and when the Fed, spooked by inflationary pressures and jumpy financial markets, may be unable or unwilling to take up the slack. Under current conditions, caution is the better part of valor. Budget talks should continue but actual cutbacks should be postponed until the economy strengthens.

Members:

Members of The Conference Board Economics Colloquium are: Stephen H. Axilrod, Vice Chairman, Nikko Securities International; Andrew F. Brimmer, President, Brimmer & Company; Don R. Conlan, President, Capital Strategy Research; Robert G. Dederick, Executive Vice President and Chief Economist, Northern Trust Company; John T. Dunlop, Lamont University Professor Emeritus, Harvard University; Lyle E. Gramley, Senior Staff Vice President & Chief Economist, Mortgage Bankers Association; Isabel V. Sawhill, Senior Fellow, The Urban Institute; Charles L. Schultze, Director, Economic Studies Program, The Brookings Institution; James Tobin, Sterling Professor Emeritus, Yale University; Laura D'Andrea Tyson, Professor of Economics, University of California, Berkeley; Charls E. Walker, Chairman, Charls E. Walker Associates; Murray Weidenbaum, Director, Center for the Study of American Business; Albert M. Wojnilower, Senior Advisor, First Boston Corporation.

Why Are Women Paid So Much Less?

By Victor R. Fuchs

Perhaps most women have experienced some discrimination by some employer at some point in their careers.

The available data suggest that marriage and children handicap women's efforts to earn as much as men.

The past quarter-century has witnessed extraordinary changes in gender roles and relationships. Yet amidst all this ferment there is another story — the persistence of large differences in sex roles and circumstances. Overall, women have made no gains in economic well-being (relative to men) since 1960.

The persistence of substantial gender inequality a quarter-century after the passage of major antidiscrimination legislation and several decades of massive social change poses a major problem for economic analysis and policy. Why are women at an economic disadvantage relative to men, and why is it so difficult for them to improve their relative position? The most popular answer — prejudice and exploitation by employers — is seriously incomplete. There is undoubtedly some prejudice and some exploitation, but the evidence in support of the employer explanation is weak and there are many facts about work and wages that are inconsistent with it.

The wage gap between women and men is very large even within detailed census occupations. Most white men and women (74 percent) are employed in occupations in which the women/men wage ratio is between .50 and .69 (chart, left panel). How is it possible for the wage gap between women and men to be so large within occupations when equal pay for equal work is the law of the land? One answer is that the Census occupations frequently include heterogeneous groups of workers, many of whom have different jobs.

No doubt many women, perhaps most women, have experienced some discrimination by some employer at some point in their careers. Destructive as these acts may be for individual women, however, they do not explain the huge wage gap between women and men in the aggregate. Consider the fact that millions of workers, both men and women, do not have their wages determined by employers at all: their earnings depend upon self-employment income, commissions, tips, piece rates, and other forms of compensation closely tied to individual performance. The sex difference in hourly earnings of the self-employed is actually larger than among regular wage and salary employees.

The claim that the wage gap results from employer discrimination is based primarily on indirect evidence. The typical study takes a sample of male and female workers and attempts to explain their individual earnings by their individual characteristics such as years of schooling, years of work experience, and so on. Most often, the characteristics used in the study explain only about half of the difference in earnings between women and men. The unexplained portion is then attributed to employer discrimination.

Is this a reasonable inference? Probably not. Consider an analogous attempt to explain sex differences in mortality. Suppose we took a sample of men and women who had died in a given year and attempted to explain variation in the age of death by individual characteristics such as cigarette smoking, education, income, and the like. Most of the seven-year gap in age of death between men and woman would remain unexplained. Would we be justified in attributing the unexplained differential to discrimination against men by physicians and hospitals? Surely not. The statistical analysis shows that some individuals die sooner than others because they are men, but it does not tell us why. The explanation probably lies in some variables (for example, hormones, stress) that were not included in the analysis, but the exact reasons for the sex gap in mortality are

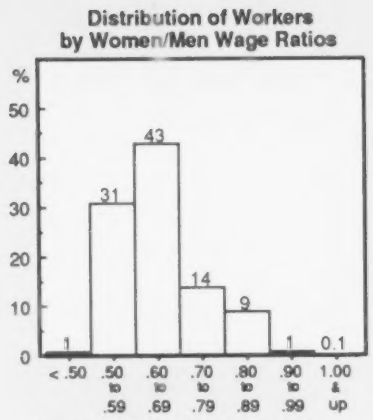
not known. Similarly, the analysis of wages shows that some individuals earn less than others because they are women, but it doesn't tell us why.

Sources of Inequality

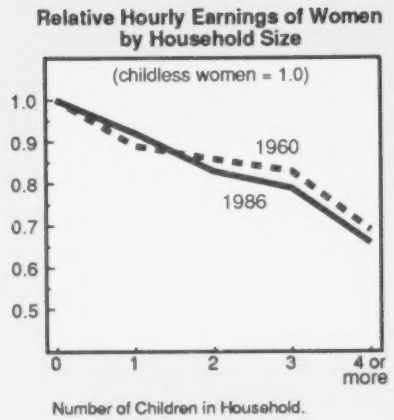
The difficult but central question is, "What is it about being a woman that leads to lower earnings?" The available data suggest that marriage and children handicap women's efforts to earn as much as men, and that success in paid work usually requires great sacrifices by women. The conflict between family and career is much greater for women than for men, and the persistence of that conflict continues to frustrate women's quest for economic equality.

The tremendous impact of marriage and related homemaking responsibilities on women's wages is evident in a comparison of the hourly earnings of married and unmarried women at different ages. In their early twenties married women actually earn slightly more than the unmarried, but their relative position deteriorates rapidly as they get older and their home responsibilities increase. By the time they are in their 40s, married women make only 85 percent as much as unmarried women per hour of work.

Children depress women's wages for several reasons (chart, right panel). First, many women leave the labor market during pregnancy, at childbirth, or when their children are young. These child-related interruptions are damaging to subsequent earnings because three out of four births occur to women before the age of 30—the same time that men are gaining the training and experience that lead to higher earnings later in life. Second, even when mothers stay in the labor force, responsibility for children frequently constrains their choice of job: they accept lower wages in exchange for shorter or more flexible hours, location near home, limited out-of-town travel, and the like. Third, women who have disproportionate responsibility for child care and housework often have to make sacrifices in their market work. For instance, when a young child is present,



Women/men Wage Ratios, Whites Only, Within Occupations, 1980



Number of Children in Household. (Whites Only, Ages 30-39, Earnings Adusted for Age and Education)

women are more likely than men to be absent from work, even at equal levels of education and wages. Perhaps most important of all, because most young women expect to be mothers, they (and their parents) are less likely than men to invest in wage-enhancing human capital while in school and in their first job or two after leaving school.

Even childless women earn substantially less (about 20 percent) than men, but part of that differential can also be attributed to the fact that women bear children. When these women were young, most of them did not know that they would be childless, and the subjects they studied in school as well as the jobs they had upon leaving school probably did not differ much from those of other women. Similarly, prospective employers were unlikely to know which young women would have children and which would not. This uncertainty could affect the employer's willingness to provide training opportunities or to make other investments in job-related human capital. The main point is that at the ages when crucial decisions must be made about education and early job choices, most women do not know how many children they will have, to say nothing of the timing of those births.

In summary, despite major antidiscrimination legislation and significant social change, most women have not improved their economic well-being relative to men over the past quarter-century. This conclusion does not apply to women who are white, unmarried, young, and well-educated; they gained about 10 percentage points relative to their male counterparts. Discrimination by employers undoubtedly contributes to women's economic disadvantage, but the conflict between career and family appears to be more important and pervasive. This conflict bears more heavily on women than men because women's desire for children and concern for their welfare appears to be, on average, stronger than the men's. Thus child-centered policies to help women are likely to be more effective and efficient than labor market interventions, and child allowances financed by broad-based taxes are likely to be superior to restricted eligibility financed by so-called "employer-provided" programs.

Excerpted from "Women's Quest for Economic Equality," *Journal of Economic Perspectives* — Volume 3, Number 1 — Winter 1989. Victor R. Fuchs is Henry J. Kaiser Jr. Professor at Stanford University and a Research Associate with the National Bureau of Economic Research

Attitudes in Moscow and New York: More in Common than You Think

A telephone survey of slightly more than 100 citizens of Moscow and an equal number of New York area residents, conducted in May 1990, compared the economic attitudes of the two peoples. A main purpose of this study was to test the hypothesis, one heard frequently in the Soviet Union and elsewhere recently, that the soviet people will not accept a market system, either because they lack experience with such a system or because their personal values are inconsistent with it.

The survey results revealed some significant attitudinal differences between Muscovites and New Yorkers, some in the expected direction. Attitudes toward business success, for example, were not as warm in Moscow. And Muscovites were more willing than New Yorkers to have government put a limit on price increases, even though it might create a shortage.

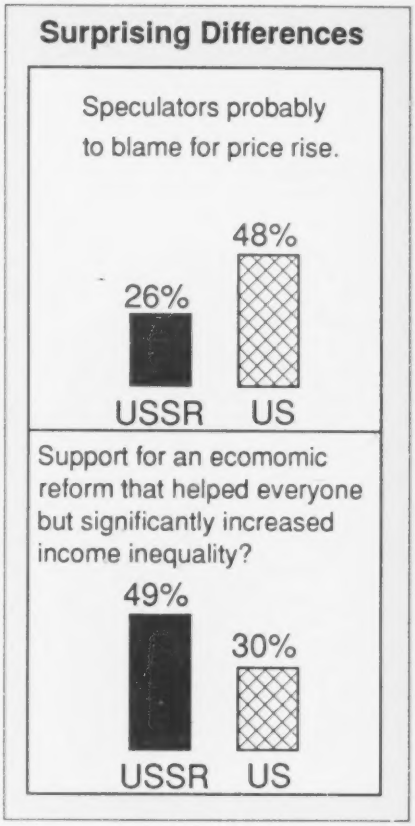
But some differences in attitudes were surprising. New Yorkers were more likely to think "speculators" cause price increases and create shortages, and they were not as willing to support an economic reform that would create income inequalities.

The differences notwithstanding, the dominant theme of the survey results was the similarity found in the opinions and values of the peoples in the very different cultures. The two groups held pretty much the same views about the unfairness of price increases, the moral acceptability of profits, their willingness to impose rationing to reduce gasoline consumption rather than to clear the market by levying a tax to raise prices, their belief in the importance of material incentives, and their reasons for savings. Probably the most striking similarity is found in a question about inheritance taxes: Asked what inheritance tax rate should be paid by "really wealthy" people, the median rate was very close, 34 percent in Moscow, 30 percent in the New York area.

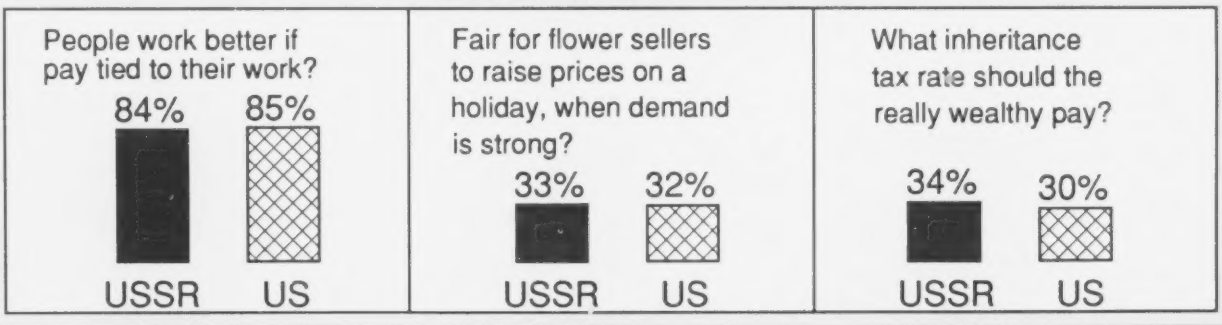
The lack of significant contrasts in popular attitudes between the citizens of the two metropolitan areas casts doubt on the widely held idea that the Soviet peoples are unwilling or unable to adapt to a market economy. As the report's authors say, "The surprise here is that often Americans seem as 'socialist' as the Soviets, and the Soviets as 'capitalist' as the Americans."

Summarized from *"Popular Attitudes Towards Free Markets: The Soviet Union and The United States Compared,"* by Robert J. Shiller, Yale University, and Maxim Boycko and Vladimir Korobov, U.S.S.R. Academy of Sciences, a working paper, forthcoming, from the U.S. National Bureau of Economic Research.

Surprising Differences



Interesting Similarities



Restoring the Reputation of Economists

An Interview with Dr. Noitall, the world's greatest public-relations authority.

Economic Times: *Why do economists have such a poor image?*

Dr. Noitall: How can you ask such a simple-minded question? You, the people who brought us unemployment, inflation, poverty, energy shortages and other major social afflictions!

ET: *But we are not in favor of those conditions. We only point them out, and explain how to deal with them.*

Dr. Noitall: That shows your naivete. The Bible records the execution of messengers who brought bad news. We no longer execute such people, but we certainly don't have to like them. You tell me I have to give up my air-conditioned gas guzzler for a crowded, four-cylinder, nondescript vehicle, and expect me to like you!

ET: *But it's our job to tell people when 2 + 2 = 4.*

Dr. Noitall: That's exactly where you are wrong! A recent poll shows that more than half the people think 2 + 2 = 5, and every network agrees with them. Those people have rights, they believe sincerely that 2 + 2 = 5, and you take no account of their wishes and desires. Simply imposing 2 + 2 = 4 on them is not democratic.

ET: *But there is really no serious scientific disagreement on the question.*

Dr. Noitall: That is exactly the problem! The Establishment is lined up monolithically on the side of 2 + 2 = 4. A dissident economist representing the 2 + 2 = 5 school cannot get his articles published in prestigious journals. Peer review is unwilling to look with favor on such viewpoints. Granting agencies do not invite people who believe 2 + 2 = 5 to serve on their boards.

ET: *We can't take seriously people who make emotional rather than scientific arguments.*

Dr. Noitall: That reflects a condescending attitude toward those who did not have the privilege of an advanced education. Prominent political groups have already supported enactment of legislation, even if it is scientifically inaccurate, as long as the public wants it.

ET: *Then how can we go about changing public opinion?*

Dr. Noitall: In the first place, stop having funny-looking people in glasses appearing on television and before legislative committees. Pick real successes, such as actors, actresses, and rock singers, and let them present your side of the story. Making large amounts of money and being handsome is evidence of success in modern society. Such people are much more likely to understand big subjects than professional economists. And stop defending unpopular causes. It is now understood that unemployment is bad. Saying it's all right in small doses will only get you an image as an apologist for bad guys.

ET: *But even if we pick attractive spokespersons, how can we convince them of the truth?*

Dr. Noitall: That is another misconception you will have to get rid of. There are two truths in this world: one of the profession, and the other of the media. What people perceive as the truth is truer in a democracy than some grubby little calculation on a computer. A stubborn insistence on the facts instead of people's perception of the facts makes you look heartless and disdainful. You will have to come out as more reasonable and accommodating, as more benevolent, kindly, and pliable, willing to give and take, empathizing with the public's fears and frustrations.

ET: *So how do we handle the 2 + 2 = 4 problem?*

Dr. Noitall: Start by conceding that 2 + 2 = 4 1/2!

by **Daniel E. Koshland, Jr.**
Adapted from *Science*, 23 March 1990.

Quotable Quote

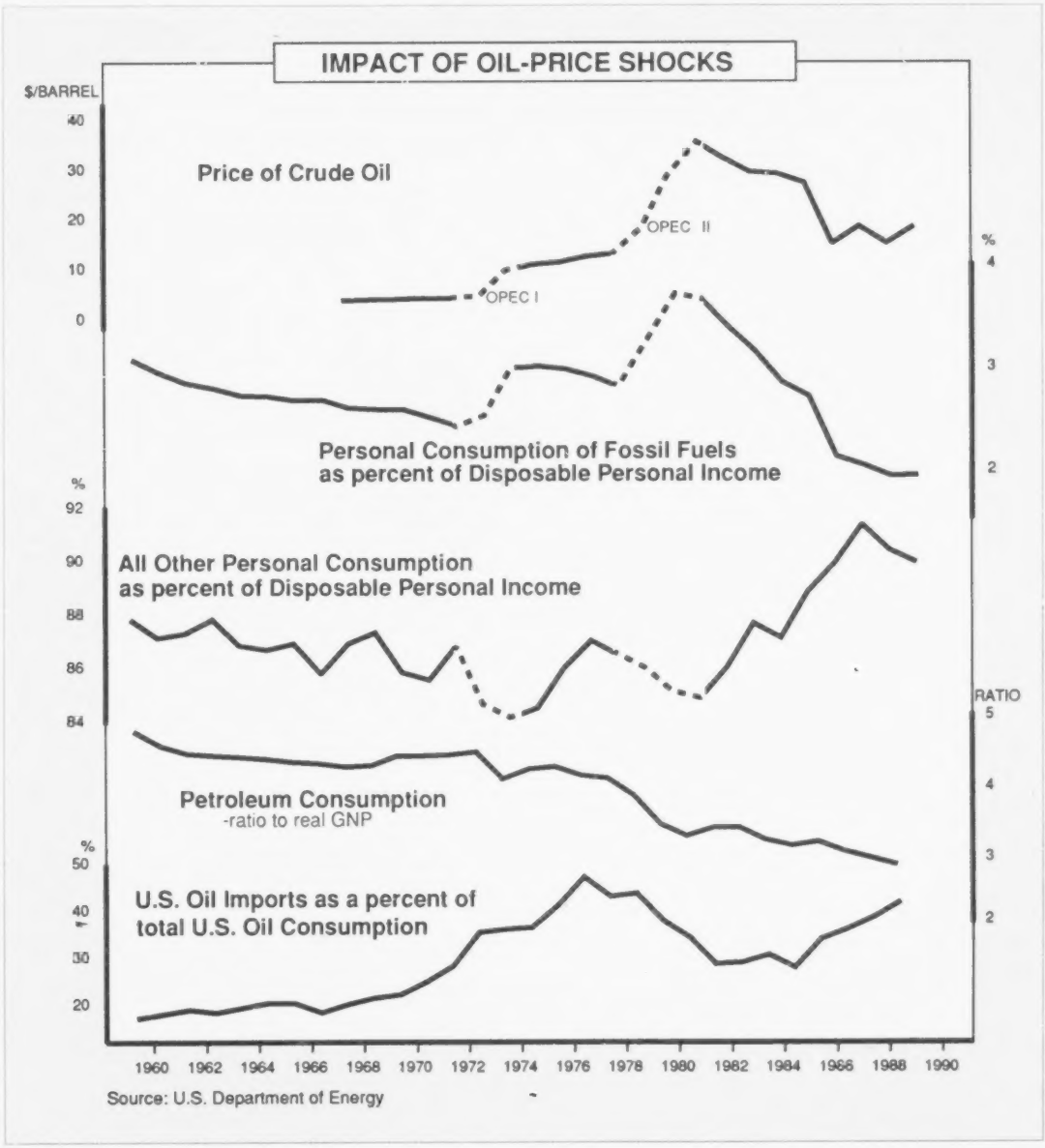
Thomas J. Plewes
Associate Commissioner of the Bureau of Labor Statistics,
Discussing criticisms of economic statistics:

The main problem may not be so much the declining quality of the data as the ever-increasing demand for information from data-hungry users. For example, a foreign bond-trading house complained about the amount of time it took to get access to our data after release. Thinking that they were talking about the slowness of the mail, we suggested that they subscribe to the electronic-press-release service. They said that they already did, but it took 2 minutes to get the data — was there some way we could speed it up?

Conference Board Stat File

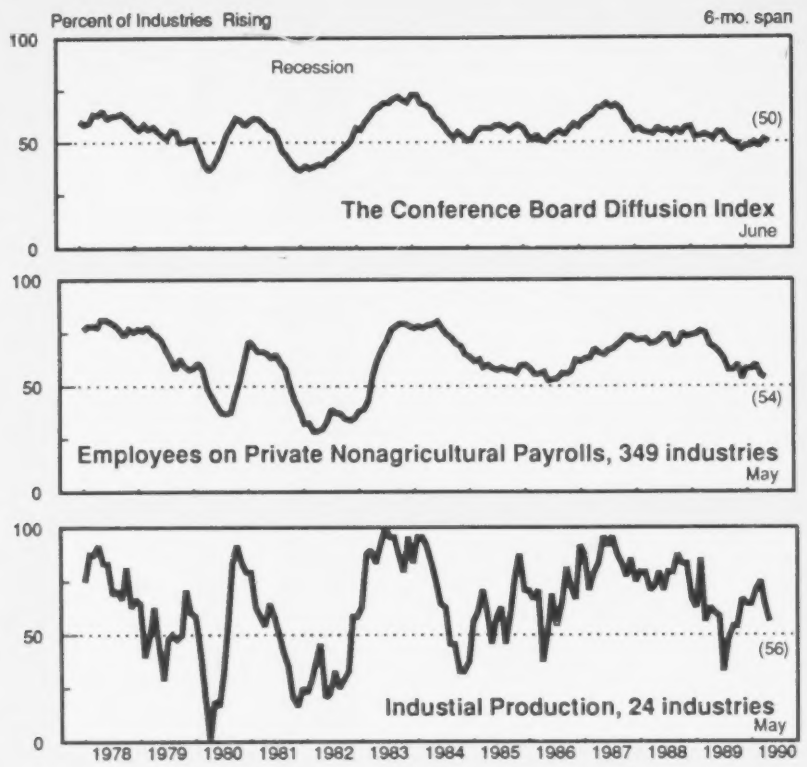
The dramatic increases in oil prices *(top series plotted below)* in 1973 and 1979 — events now known as OPEC I and OPEC II — proved to be great shocks to the energy-intensive American economy. For a time, consumers cut back sharply on their non-energy spending (3rd series), partly out of shock, and partly because the extra costs of buying energy *(2nd series)* left them with less purchasing power to spend on other items.

Over the long haul, Americans improved their energy efficiency substantially *(4th series)*, mostly because of higher *(relative)* energy prices but also as a result of regulatory mandates, notably on gasoline consumption by automobiles. Nevertheless, because oil demand grows with the economy and because domestic oil production is declining, oil imports *(bottom series)* again account for about half of total U.S. oil consumption, increasing our dependence on and our vulnerability to the OPEC cartel. *(Note: Data for Conference Board series in this section are available upon request from Ken Goldstein at 212-339 0331.)*



Conference Board Stat File

Indexes of Economic Momentum

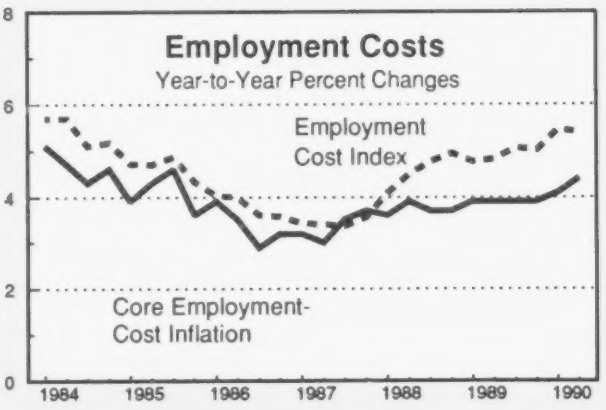


Economic momentum neither fading nor recovering.

Gradual acceleration continues.

Inflation Fundamentals

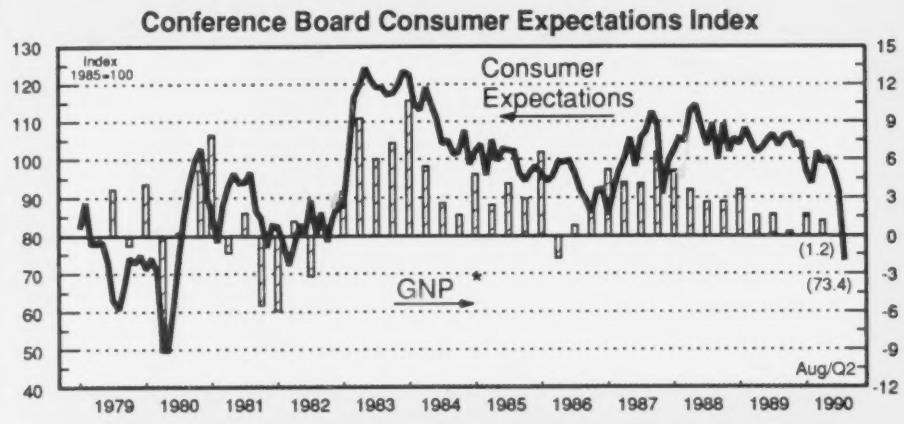
Core inflation = CPI excluding food at home and energy

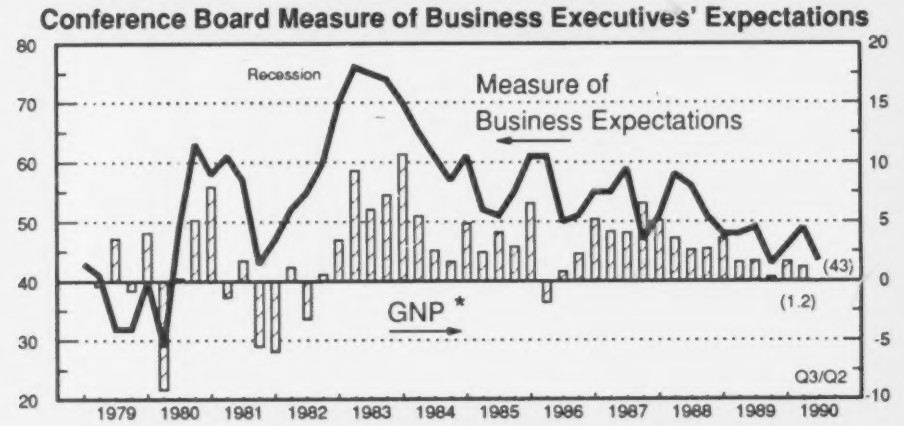


Core employment-cost inflation = wages and salaries of private sector workers excluding sales personnel (i.e.,excluding the benefits that are part of the ECI)

Conference Board Stat File

Confidence

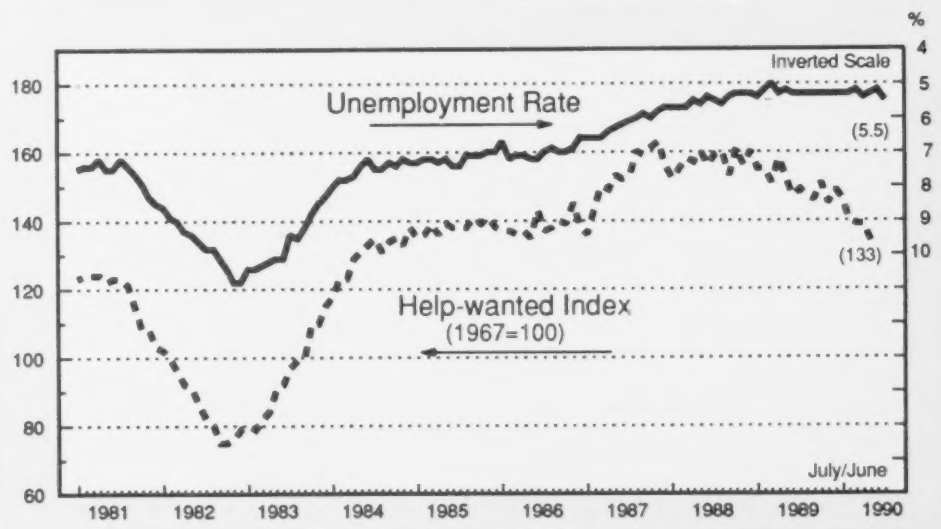




New oil shock rocks consumers.

* Quarterly percent changes in GNP at annual rates

Investment Intentions



Labor demand continues to soften.

Inside the Crystal Ball

		UCLA	MERRILL L.	DUPONT	GEORGIA ST.	CONF. BOARD	L.H. MEYER	DRI	WEFA		
Date of Forecast		Aug	Aug	Aug	Aug	Aug	Aug	Aug	Aug		
Gross National Product											
(Quarter-to-quarter percent change, constant dollars, seasonally adjusted at annual rates)											
		%	%	%	%	%	%	%	%		
Actual	1990 1Q	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1.7	1Q 1990	Actual
	2Q	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	2Q	
Forecast	3Q	-3.5	1.2	1.4	1.0	1.6	1.1	0.2	-1.5	3Q	Forecast
	4Q	-3.3	1.0	1.3	-0.7	2.5	-2.8	-0.1	0.8	4Q	
	1991 1Q	0.1	1.3	1.8	-0.4	2.2	-1.6	1.0	1.0	1Q 1991	
	2Q	3.3	2.2	2.9	-1.1	1.2	0.0	1.8	1.6	2Q	
	3Q	4.3	2.4	3.0	5.2	1.0	0.7	2.9	1.9	3Q	
	4Q	5.2	2.5	3.1	2.2	3.1	2.0	2.0	2.4	4Q	
	1992 1Q	4.5		3.3		4.5	2.9	2.6	2.5	1Q 1992	
	2Q	2.8		3.4		2.4	2.7	2.5	2.1	2Q	
	3Q									3Q	
Inflation (GNP Deflator)											
(Percent change from same quarter one year earlier)											
Actual	1989 4Q	3.7	3.7	3.7	3.7	3.7	3.7	3.7	3.7	1989 4Q	Actual
Forecast	1990 4Q	4.5	4.5	4.2	4.9	4.4	4.6	3.9	4.6	1990 4Q	Forecast
	1991 4Q	3.4	4.3	3.9	4.2	4.7	3.9	4.2	4.2	1991 4Q	
Unemployment Rate											
(Percent, quarterly)											
Actual	1990 1Q	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	1Q 1990	Actual
	2Q	5.2	5.2	5.2	5.2	5.2	5.2	5.2	5.2	2Q	
Forecast	3Q	5.9	5.4	5.4	5.5	5.5	5.4	5.6	5.2	3Q	Forecast
	4Q	6.4	5.6	5.5	5.8	5.5	5.9	5.9	5.2	4Q	
	1991 1Q	6.8	5.6	5.6	5.9	5.5	6.3	6.1	5.2	1Q 1991	
	2Q	6.9	5.5	5.5	6.2	5.5	6.6	6.2	5.2	2Q	
	3Q	6.8	5.5	5.4	6.2	5.4	6.9	6.2	5.1	3Q	
	4Q	6.5	5.5	5.3	6.3	5.5	7.0	6.2	5.1	4Q	
	1992 1Q	6.2		5.2		5.5	7.0	6.1	5.1	1Q 1992	
	2Q	5.9		5.2		5.4	6.9	6.1	5.1	2Q	
	3Q	5.7		5.2		5.4			5.0	3Q	

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